Saint Raphael Healthcare System

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WRITTEN TESTIMONY OF
CHRISTOPHER M. O'CONNOR
PRESIDENT AND CHIEF EXECUTIVE OFFICER
HOSPITAL OF SAINT RAPHAEL

FINANCE, REVENUE, AND BONDING COMMITTEE
Monday, March 22, 2010

RE: S.B. 484, AN ACT CONCERNING THE GOVERNOR'S REVENUE PLAN

The Hospital of Saint Raphael opposes Section 10 of Senate Bill 484, An Act Concerning the Governor's Revenue Plan, which would impose a 3.25% hospital gross earnings tax. Significant underfunding by government payers, which represents 70% of Saint Raphael's patients, has already put the Hospital of Saint Raphael in a precarious financial position. We are already in violation of our bond covenants and with only 16 days cash, the Hospital of Saint Raphael does not have the funds or the capacity to borrow $1.25 million each quarter, beginning on July 31, 2010, to pay a hospital tax.

Background on Saint Raphael's

- Saint Raphael's is very busy. In fact, our volume is above budgeted levels and there are many days where patients are held in the Emergency Department due to lack of beds.
- We are a safety net provider and do not turn anyone away. As noted above, 70% of our patients are covered by governmental payers that do not cover the cost of care: 55% are Medicare beneficiaries, 15% are Medicaid or SAGA beneficiaries. Currently, Medicare pays Saint Raphael's 87% of our cost (for an annual shortfall of $27 million); Medicaid pays us 75% of our cost ($10 million shortfall), and SAGA pays 33% of our cost ($8 million shortfall). The $4.9 million from the uncompensated and urban pools and cost-shifting to private insurers help to a degree, but are far from making up the shortfall. In addition, commercial insurers are increasingly getting pushback from employers regarding the cost shift.
- As a result, the Hospital is in its fifth consecutive year of losses, currently has only 16 days of cash, is in violation of its bond covenants. This is despite reducing costs, improving revenues, and improving efficiencies.

Shortfalls, Rate Delays, and Proposed Hospital Tax:
The Hospital of Saint Raphael cannot afford to serve as the safety net for the state and federal government and should not be financially penalized for taking care of this state's governmentally-insured patients. The math simply does not work:

Current shortfalls	
• State payment shortfalls	$18 million/yr
• Federal payment shortfalls	$27 million/yr
Delay of SAGA increases	$8.1 million/yr
Proposed tax	
• Proposed tax	$ 5 million/yr

Years of governmental shortfalls have significantly contributed to our dangerous financial position. We cannot serve more people, particularly increasing un- and under-insured populations, with shortfalls, delay of SAGA increases, and the imposition of a hospital tax.

Proposed Hospital Tax

In 2000, the legislature repealed the hospital earnings tax, followed by the repeal of the sales and use tax. This was done for good reasons. Besides the complexity of implementing such taxes upon "non-governmental patients," I believe the legislature understood the challenges faced by Connecticut's hospitals, especially those that serve a disproportionate number of Medicare and Medicaid patients. Although the State is facing a large budget deficit, I am sure you understand, as you and your colleagues did a decade ago, the challenges that Connecticut's hospitals continue to face. We have serious concerns about the proposed tax:

1. While the intent may be for hospitals to cost shift the tax to commercial payers, the reality is that contracts are in place with established rates. Thus the tax, until and if the contracts could be renegotiated, would default to hospitals.

2. With our noted days cash and bond covenant status, Saint Raphael's would find it extremely difficult, if not impossible, to send a $1.25 million check to the State each quarter. Even if some or all of the tax is disbursed back to us at a later date, we do not have the cash or the ability to borrow funds to make this type of quarterly payment.

3. As I understand it, the collected taxes would be returned in the aggregate, some hospitals would get less than they put in, and other hospitals would get more than they put in. In the past, the hospital tax was imposed on non-governmental payers. Since 70% of Saint Raphael's patients are covered by governmental programs, and a portion of the remaining 30% of our privately-insured patients include federal ERISA or Taft-Hartley plans, we will most likely receive less money back from the State than we pay in. There would be limited ability, if any, to recoup the hospital tax.

Delay of SAGA Rate Increase

The Administration has not taken the steps necessary to implement the SAGA waiver as directed by the legislature in its biennial budget passed in September 2009 which included the funds to increase hospital SAGA rates to Medicaid rates, effective January 1, 2010. The funds have been appropriated and will be matched with or without a waiver. As we continue to provide care to all patients, including SAGA patients, we urge you to insist that DSS pay hospitals in accordance with the biennium budget at the Medicaid rate for SAGA and finally put hospitals on par with all other non-hospital providers in the SAGA program.

Finance Committee Members, We Need Your Help

The proposed tax in Section 10 of Senate Bill 484 translates into healthcare and jobs for Connecticut's residents and your constituents. Our workforce of 4,110 employees provides high-quality, compassionate care to thousands of patients each year, 24 hours per day/seven days per week and provides a healthcare safety net.

The state legislature repealed the hospital gross earnings tax a decade ago recognizing that it took vital healthcare dollars out of the healthcare system, further exacerbated the governmental under-funding issue, increased healthcare costs, and penalized many hospitals that serve as safety-net providers.

We urge you to reject Section 10 of Senate Bill 484. Thank you.